

High on Haute Couture at Luxe Summit

Bernard Arnault is chairman of LVMH, the world's largest luxury goods conglomerate, including the fashion houses of Dior, Givenchy and Christian Lacroix as well as Louis Vuitton, Cartier, Moët et Chandon, Veuve Clicquot, Dom Perignon and Pommery, and Hennessy cognac. In the week of the Paris haute couture collections, Mr. Arnault spoke with Suzy Menkes of the IHT.

Q. What is the role of haute couture in the modern world? Are you prepared to support couture, which is loss-making, for the foreseeable future?

A. In part because of the remarkable media interest in haute couture as the pure expression of the style of a fashion house, it has been and continues to be the surest means of communicating the specific personality of a creator. It is, in a real sense, the research and development laboratory of Paris style and taste, and I think that holds true as well for some other centers of fashion. Research and development in any enterprise is a cost center and not a profit center.

Q. The 1990 figures show that 93 percent of Dior's volume of 6.4 billion francs came from licenses. Is licensing still the strategy for haute couture houses in the 1990s?

A. Christian Dior was the first in our industry to establish a licensing network worldwide as a means of international distribution. Mr. Dior was therefore able to select the best partners and maintain strict quality control so that today the Dior partnership network is the model for licenses. I think that this strategy of developing a carefully controlled licensing network, under the direct supervision of the house of Dior for the past 40 years, will continue to be important to us in the years ahead.

Q. Can you see an end to the insatiable appetite for luxury goods in the Far East? Are you concerned that criticism of the Japanese by Prime Minister Cresson might affect the market?

A. The demand for luxury Western goods in the Far East is a phenomenon due to several factors. First, history demonstrates that where there is an increase in consumer purchasing power, consumers migrate to the higher-end of goods. Second, media world-

MONDAY Q&A

wide have identified French luxury goods as the trend-setters and the taste-leaders among the true quality products that are usually identified with the word "luxury." I really see no end to the desire to purchase quality luxury goods among consumers whose purchasing power continues to increase. It would not be appropriate for me to comment directly on the French prime minister's remarks concerning Japan.

Q. Do you see a turn-around from recession in the United States in the near future? Or is the designer decade over for the American consumer?

A. The precursor economic indicators tell us that the recession should be over soon in the United States. However, it's also true that employment is among the last to pick up following a recession, and in the U.S. unemployment during this recession hit white-collar employees hard and may have been due to structural changes in the American economy. I do not think, however, that this will have any long-term impact on Americans' quest for good taste and quality in their consumption patterns.

Q. The fragrance business is showing a 5 percent downturn, apparently because of the

Gulf war. Is this a temporary blip? Or has the luxury market been saturated with too many products?

A. You are correct to distinguish the short-term effects of the Gulf war and the long-term industry trends. The downturn you mention was due mainly to lower duty-free sales for the more mass-market perfumes, which didn't affect us. I understand that there is now a real pick-up in duty-free perfume sales as travel and tourism comes back. As for the luxury perfume market, you can say that there has been an "overdose" of new product introductions by all sorts of companies which had little experience in the matter, and it is possible that the consumer is feeling somewhat confused.

Q. Do you foresee real changes in the luxury field: for example, demographic or sociological changes that might discourage a new generation from defining itself by status products?

A. Your question reminds me of another I was asked not long ago about the impact of fewer "yuppies" on the luxury goods market. I must say that people drank Dom Perignon centuries before there were "yuppies" and I believe that they will continue to drink Dom Perignon long after the last "yuppie" is gone. Indeed, the personal quest to acquire prestige goods is just as eternal as is the human quest to express good taste.

Q. Once only the rich drank Champagne. Now it is everybody's tipple. Do you believe that the Champagne market, of which your labels hold 25 percent, will continue to expand indefinitely?

A. Champagne holds a special place in people's minds. The fact is that demand developed so strongly over the past few decades that the limited geographic area called Champagne simply couldn't keep up, and we think that this trend will continue in the long-term.

Communist Party Banned by Yeltsin From Work Sites

By Esther B. Fein

New York Times Service

MOSCOW — President Boris N. Yeltsin of the Russian Republic has issued a decree that bans Communist Party organizations from operating in government offices, institutions and state-owned economic enterprises.

The decree seems designed to undermine the party's intrusive decision-making at factories, farms and offices.

Mr. Yeltsin, who quit the Communist Party last year, called for legislation to ban party cells in the security police, the regular police and in the armed forces.

The decree says that workers and officials can carry on political activity "during nonworking hours and outside the limits of state organs, institutions, organizations and enterprises."

Party cells have been a parallel administrative apparatus and source of authority. They were long the Communist Party's way of ensuring uniformity and obedience at every level of social and economic life, but their influence has diminished in recent years.

Mr. Yeltsin's attack comes as the Communist Party seems on the brink of fracture, if not collapse.

While orthodox Communists in the party have begun openly attacking the policies of President Mikhail S. Gorbachev for political and economic change, others in favor of radical change have left the party and set up opposition movements.

The decline of the Communist Party's power and prestige is perhaps the most critical development in restructuring of the political system.

After relenting under pressure last year and giving up its constitutional guaranteed monopoly on power, the Communist Party has struggled to find a role and future in public life.

President Yeltsin's decree is designed to minimize that role, saying that all citizens must "follow the legislation" of the Russian Republic in their work or service and are not bound by the decisions of political parties and mass public movements.

The reaction of President Gorbachev to the Yeltsin decree is not yet clear. Any attempt on his part to defend the unpopular party cells and their power would inevitably bring on much criticism, and perhaps renewed conflict with Mr. Yeltsin himself.

Troops in Slovenia Start to Pull Out, 6 Killed in Croatia

Compiled by Our Staff From Dispatches

LJUBLJANA, Yugoslavia — The federal army began withdrawing Sunday from the breakaway republic of Slovenia, but in neighboring Croatia new violence took six more lives.

The army began to withdraw its troops from the western Slovene border toward the interior and is to continue the withdrawal toward the exterior of Slovenia during the day," the Slovene radio said.

Federal troops were pulling out, the broadcast said, "escorted by Slovene police." The broadcast said troops stationed in the Primorska region, bordering Italy, would be pulled out within a week.

On Thursday, the Yugoslav collective state presidency agreed that the federal army would begin leaving Slovenia immediately, and complete the withdrawal within three months.

Croatia, which declared independence on the same day as Slovenia — June 25 — now feels abandoned and alone.

Fighting between Serbs and Croats has killed more than 100 people since May. Thousands of residents — Croats and Serbs — have fled trouble spots.

Branko Salaj, an adviser to the Croatian president, Franjo Tudjman, has accused Slovenia of "going it alone." Croatia faces clashes with the army that could be "much bloodier" than the fighting in Slovenia, which left 70 dead, he said.

On Friday, Mr. Tudjman reiterated a Croatian demand that federal troops, in keeping with the accord reached on the island of Brioni, return to barracks throughout Croatian territory. The accord, negotiated by the European Community, was accepted by the federal government July 13.

In the Hague, a Foreign Ministry spokesman said that Henry Wijnandts, the ambassador to France, was being sent to Yugoslavia to help put the accord into effect.

In Croatia, local sources said three policemen were shot overnight while on patrol in the eastern town of Daruvar, about 100 kilometers (60 miles) from here.

In Lovina, a village near the Adriatic coast in the Serbian enclave of Krajina, a 67-year-old woman was killed. Serbian nationalists have surrounded the village and electricity and telephone lines have been cut.

In Vukovar, in the eastern region of Slavonia, part of Croatia, a man was killed by gunfire while standing at his window and the body of a Serb was found in the town of Borovo.

Croatia said it would step up efforts to stop attacks by Serbian guerrillas, who go by the old Serbian guerrilla name of Chetniks.

"Chetnik organizers are widening their terrorist acts in Croatia," President Tudjman said at a news conference in Osijek, the main town in the eastern Slavonia region of Croatia, bordering Serbia.

"We must mobilize our forces to the limit and organize police and the national guard to be prepared for this."

Mr. Tudjman vowed that Croatia would not surrender territory claimed by Serbia.

"The situation of Croats in Croatia has become more complicated, especially by the decision to withdraw the Yugoslav Army from Slovenia," he said.

Croatia fears that troops leaving Slovenia may mass along its borders. It says the Serbian-dominated army is helping the ethnic Serbs in Croatia.

Croatians suspect that Serbia, resigned to the loss of Slovenia and the breakup of Yugoslavia, will try to set up a greater Serbian state by taking over large area of Croatia inhabited by ethnic Serbs.

President Tudjman, visiting Osijek a day before a crisis meeting of all Yugoslav leaders, accused Serbia of responsibility for the violence but said it would not succeed.

"This is fully Croatia here and Croatia is not ready to talk about ceding eastern Slavonia," he said. "We will not give up Croatian land."

Chetnik gunmen have stepped up attacks across Croatia. They support Croatia's 600,000 Serbs, many of whom mistrust Catholic, Western-oriented Croatia and do not want independence to separate them from Orthodox Serbs.

Memories of World War II, when the Nazi puppet of Croatia massacred Serbs, Jews and Gypsies, are involved in the crisis.

(AFP, AP, Reuters)

WORLD BRIEFS

Rightist Violence Flares in Germany, Store at Death Camp Site Is Assailed

Compiled by Our Staff From Dispatches

BONN — Rival protesters shouted insults at each other Sunday at the site of the Nazi concentration camp at Ravensbrück, where a new supermarket has been built but not yet opened. The protesters included former inmates of the camp, where 90,000 women and 1,000 children died. Local residents look forward to 100 jobs promised in the market. On Wednesday, Brandenburg state officials gave their approval for the project to go ahead, if trees would be planted to separate the camp and the supermarket and a separate access road would be built to the market. Elsewhere in Germany, rightist violence broke out over the weekend. In Hamburg, in former West Germany, a Turkish man was in critical condition after being beaten by "skinheads."

In Leipzig, in former East Germany, fighting broke out among rival rightist extremists during a convention of the Republican Party and 14 people were arrested, the police said.

(AFP, AP)

Afghan Rebels Reject Election Plan

PESHAWAR, Pakistan (Reuters) — Guerrilla officials said Sunday they would press for a military victory in the war in Afghanistan because elections would not provide a solution.

Military representatives of the seven main guerrilla groups virtually dismissed a United Nations peace plan for a cease-fire and free elections to end the 13 years of war against the Soviet-backed government in Kabul.

The news conference in this border town, which serves as the main guerrilla headquarters, senior officials of the factions in the anti-Communist guerrilla movement made a rare joint appearance. Analysts say that there is still little battlefield cooperation by the factions.

U.S. Team Opens Search for MIAs

BANGKOK (UPI) — A 25-man U.S. military team began searches in Vietnam for evidence of missing Americans as Hanoi formally agreed to investigate a photograph allegedly showing three missing servicemen, official Vietnamese media reported Sunday. At the same time, Vietnam demanded punishment of those involved in producing the photo if it is shown to be a fabrication.

Hanoi radio said the search began Saturday and was expected to last until Aug. 10. It said the search was being conducted in northern and central Vietnam with 25 American experts — one of the largest U.S. teams to participate in such efforts. The report did not say whether the investigation would specifically probe the circumstances of the photo, which was made public last week.

The Vietnam News Agency, however, said the government was concerned about the photo, which shows three men holding up a sign dated May 1990. Relatives of missing Americans identified the men in the picture as among those missing for more than 20 years.

Gandhi Suspect a Suicide, Police Say

MADRAS, India (Reuters) — A suspect in the assassination of former Prime Minister Rajiv Gandhi hanged himself from a tree, the police said Sunday.

But the suspect's wife, Bhuvani Shanmugam, accused the police of killing her husband. Narayan, who had escaped from police custody, His body was found Saturday. Mr. Shanmugam had led investigators to explosives and radio sets hidden in the jungle in southern Tamil Nadu state before escaping on Friday. The police said they believed the cache had been put there for guerrillas of the Liberation Tigers of Tamil Eelam.

The guerrilla group has denied involvement in Mr. Gandhi's murder, but the police believe it ordered him killed because he sent Indian troops to Sri Lanka in 1987. The police have alleged that Mr. Shanmugam assisted the man suspected of organizing Mr. Gandhi's assassination and the woman who wore the bomb that killed him at an election rally near Madras on May 21.

TRAVEL UPDATE

In an operation intended to reduce boating accidents, gendarmes patrolling the coast off Nice have stopped 25 pleasure boats and fined each of their skippers 1,500 francs (\$250), either for exceeding posted speed limits or for failing to carry regulation safety equipment. (AFP)

French rail workers in Calais and Boulogne-sur-Mer suspended a strike on Sunday that had disrupted train service for more than two weeks and had spread to a dozen other stations in northern France. Union sources said a compromise on wage increases and the amount workers would be paid while on strike had been reached. (AFP)

This Week's Holidays

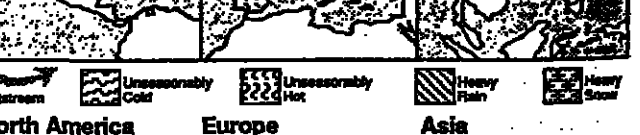
Banking and government offices will be closed or services curtailed in the following countries and their dependencies this week because of national and religious holidays:

MONDAY: Belgium, Swaziland.
TUESDAY: Egypt, Libya, Papua New Guinea.
WEDNESDAY: Ecuador, Venezuela.
THURSDAY: Costa Rica, Cuba, Equatorial Guinea, Puerto Rico, Tunisia.
FRIDAY: Burma, Cuba, Liberia, Sri Lanka.
SATURDAY: Cuba, Puerto Rico.

Source: J.P. Morgan, Reuters.

The Weather

Forecast for Tuesday through Thursday



North America Today Tomorrow

The heat wave will persist in the Midwest by midweek and the hot weather will be trimmed later this week in the Northeast. Most of the United States, however, will be hot, with temperatures in the 80s and 90s. Heat will build across the interior West.

Europe Today Tomorrow

The weather will be unsettled with periods of rain Tuesday into Thursday in a belt from London to Vienna and Berlin. Southern France, however, will be hot, with temperatures in the 80s and 90s. Heat will build across the interior West.

Asia Today Tomorrow

Brands may become a typhoon before Aug. 1. In the Philippines, a typhoon may develop. In the South China Sea, a typhoon may develop. In the Indian Ocean, a typhoon may develop.

Africa Today Tomorrow

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Latin America Today Tomorrow

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North America Today Tomorrow

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Legend: S-sunny, P-partly cloudy, C-cloudy, A-afternoon showers, F-fog, H-heavy rain, M-moderate rain, W-wind, X-unknown, N-no data.

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Prime Minister Edith Cresson, left, with Yukiko Kishi, wife of the Japanese ambassador to France, at a show on Sunday.

Cresson Debuts at Show With a Little Mending

International Herald Tribune

PARIS — Prime Minister Edith Cresson caused a stir on Sunday by sitting in the front row of the Torrence fashion show. Although the French establishment has always supported haute couture, it is unprecedented for the head of government to attend a fashion show.

"Fashion is a major French industry and an important employer, and above all a big export business," said Mrs. Cresson, in what appeared to be a fence-mending exercise. She had put France's luxury industries in a spin by criticizing the work ethic of the Japanese, who are French fashion's biggest customers.

Mrs. Cresson, who is expected to attend Dior's show on Monday, was wearing a coal black dress with white pique collar and the busy working woman's familiar accessory: a run in her hose. The clothes she saw were utterly conventional suits and dresses of the tout-Paris sort, with a few feathers waiting about.

ARMS: As Peace Blooms, Pentagon Aims at Fewer Soviet Targets (7,000)

(Continued from page 1)

the locus of national decision-making and the site of most strategic nuclear weapons, as well as most of the military forces being withdrawn from Eastern Europe.

Under the most massive attack option, officials said, a U.S. retaliatory strike would unload on Russia as many as 5,000 warheads.

Each warhead would pack much greater explosive punch than those that flattened Hiroshima and Nagasaki in World War II, effectively turning Moscow and the republic's rural regions into a smoldering, radioactive ruin.

Many other features of earlier war plans also remain intact, in keeping with the slow evolution of such targeting lists. "It's not like cars, where there's a new model every year," said an official involved in the revisions. "There's a lot of inertia in the system."

Some of the most controversial elements of the new plans, many carried over from earlier plans, are:

• The declining-potential problem. The aim remains to destroy thousands of Soviet military bases, storage depots, command centers and industrial installations that would support a Soviet invasion of Western Europe, even though U.S. military officials say such an invasion is now highly unlikely — not least because of the Soviet withdrawal from Eastern Europe — and could be adequately rebuffed with superior Western conventional arms.

• The "fire" what? problem. Warheads are assigned to Soviet targets according to a formula that predicts the direct-blast effects of nuclear detonations but excludes any consideration of fire, radiation and electromagnetic-pulse effects. The formula overlooks factors that helped devastate Hiroshima and Nagasaki, prompting criticism that the plans use too many weapons.

In calculating the scope of human destruction, no consideration is given to the fact that anyone within five miles of a single blast could receive third-degree burns and radiation poisoning.

A U.S. official said these are excluded because they cannot be tested and predicted. He also said that fire and radiation have little relevance against hard targets.

• The empty-silo problem. The bulk of U.S. missiles are targeted at Soviet silos containing nuclear-tipped missiles, at submarine ports, strategic bomber airfields, and command centers, in hopes that the damage of a Soviet first strike could be limited by a quick and massive retaliatory attack against the places where Soviet weapons are based or controlled.

Yet many of these sites would be empty in the event of an orchestrated Soviet first strike, their weapons having been fired toward U.S. targets. "The U.S. has not had a meaningful damage-limiting capability for more than two decades," according to a Harvard engineer and weapons expert, Albert Carnesale.

"Yet, damage limitation remains part of our strategy," he said, still covers silos even though there is no certainty that the missiles in them would be caught before they are launched.

Explaining the rationale behind this, the U.S. military official said the aim is partly to prevent the reconstruction of a Soviet force through weapons reloading, repair or replenishment.

• The prompt-response problem. Despite years of debate over an alleged U.S. "window of vulnerability" to a Soviet first strike against U.S. land-based missiles, no concrete action has been undertaken to redeploy the weapons, a circumstance that has preserved pressures to "use them or lose them" at the outset of an attack.

Soviet missiles would take only 25 to 30 minutes to reach their U.S. targets, less if launched from submarines. "I think the president would react, and I think he'd react damn quick," said a retired air force general, John T. Chain Jr., once director of the target planning staff and a former chief of the Strategic Air Command.

In the early years of the nuclear age, the war plan threatened only a massive strike. But since the 1960s, the United States has developed plans for limited nuclear counterattacks should the Soviets strike first, under a war-fighting doctrine known as "flexible response."

Targeting lists have been updated periodically, amid controversy over whether planning for a limited war makes the use of nuclear arms more or less likely, or whether a limited war is even a feasible con-

sideration given the expectation that a nuclear conflict would quickly escalate.

Officials said target planners continue to be guided by a three-page policy document, NSDD-13, signed in 1981 by President Ronald Reagan as U.S.-Soviet relations took a turn for the worse.

Neither Mr. Bush nor Mr. Cheney has recommended revising the Reagan directive, which says that U.S. nuclear forces must deter a Soviet attack by threatening the swift and sure destruction of major segments of Soviet military and civil capability.

The new U.S. war plans reflect what officials said are slight modifications to nuclear-attack options drawn up from Mr. Reagan's guidance — known as the Nuclear Weapons Employment Plan — approved in 1987 by Defense Secretary Caspar W. Weinberger, two years before the fall of the Berlin Wall and the ensuing collapse of communism in Eastern Europe.

A secret August 1989 Pentagon document on nuclear war, signed by Admiral William J. Crowe, then chairman of the Joint Chiefs of Staff, includes such generalized instructions as "defeat [a nuclear attack] should deterrence fail," "persuade our potential adversaries that the costs of aggression entail unacceptable levels of damage well beyond the benefit of any potential gain," and "seek to terminate the conflict at the earliest practical time."

"Specifically," the document states, according to a copy obtained by The Washington Post, "our forces will hold at risk those assets that the Soviet leadership would need to prevail in a nuclear conflict and dominate a post-nuclear world. These assets include the Soviet military forces, political leadership structure and war-supporting industry."

It says further that commanders would "attempt initially to limit the scope of the conflict, providing hostilities can be terminated to U.S. advantage." But in an important qualifier, the document warns that ending the war "on favorable terms" may not be possible.

Strike planners start by consulting the National Target Base, a detailed, continuously updated list of everything and everyone in the Soviet Union believed by U.S. intelligence agencies to be capable of furthering Moscow's war aims.

This is so broad it reportedly once included Soviet fertilizer plants and high schools that might shelter local officials.

The targeter

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BEIRUT: Businesses Start to Return as Lebanese Give Peace a Chance

(Continued from page 1)

his insurance business to the Greek capital in 1976, a year after the war broke out.

Like many of the returnees, Mr. Melki is not sure he will stay. "I will decide when to bring back my wife and two children when I can determine whether I want to relocate my business in Beirut," he said.

The Syrian soldiers who stand behind the Hrawi government will have a very real effect on Mr. Melki's future. Damascus has supported the Lebanese government in its effort to recover control of the nation's territory as part of the Arab-brokered pact negotiated by Lebanese legislators at the Saudi resort of Taif in 1989.

The pact brought unity to the two sectors of the capital last year, the first step in a process that also brought an end to the Palestine Liberation Organization's guerrilla presence near the southern port of Sidon recently.

Syria has 40,000 soldiers spread over about 70 percent of Lebanese territory, enforcing the terms of the political pact, which reordered the Lebanese power equation by removing the Christians' advantage in Parliament.

The government has focused particularly on improving security in the area of the airport in the southern suburbs, once a hotbed of Shiite Muslim militants and an area in which a number of foreigners and Lebanese Christians were kidnapped during the worst of Beirut's lawlessness.

As Lebanese continue to come back to test the new peace, foreign airlines have been resuming flights to this capital that were halted long ago because of the fighting.

So far, 13 airlines have taken the risk of using Beirut Airport again, including Air France, Austrian Airways, Cyprus Airways, the Soviet airline Aeroflot, Egyptian and several East European airlines.

The Lebanese national carrier, Middle East Airlines, is still the busiest. Its chairman, Samir Salam, says more than 300,000 Lebanese are booked to return home this summer. While no accurate figures are available about the number of people who fled during the war, official estimates put the total at three quarters of a million out of a population of 3.5 million.

Mr. Salam said the airline's 15 flights fly 3,000 passengers a day.

One of the returning Lebanese, Abdel Rahman Alayli, a 35-year-old Muslim, said he had sold his restaurant in Canada and returned with his family for good. "What I missed the most in Canada were my lifetime friends," he said. "Besides, I want my children to catch up on their Arabic."

Although Lebanese are returning in larger numbers than ever, Mr. Salam complained that Washington still refuses to end its ban on Beirut Airport and flights by the airline to New York.

In any case, most Westerners are very apprehensive about travel to Beirut because of the potential for hostage-taking. Six Americans and six other Westerners who are missing in Lebanon are believed held by clandestine Shiite factions affiliated with Iran.

Western officials who visited Beirut recently to look over conditions and examine the chances of freeing the captives, told the Lebanese government that their plight would continue to hurt efforts to convince foreign businesses, diplomats and journalists to return to Beirut.

Nonetheless, business teams from Japan and Europe — including bankers from France, Belgium and Luxembourg — have come to explore the possibility of reopening offices in Beirut, the Middle East's banking and commercial center before the civil war.

INKATHA: Pretoria Foreign Minister Says He Authorized Payments

(Continued from page 1)

sponsored by Inkatha. Most black trade unionists support the African National Congress.

But Mr. Vlok, interviewed Sunday night on a television news program, said the South African police had paid no more than 1.5 million rand, nearly \$600,000, to Inkatha and its subsidiary labor union over a six-year period.

"Five million rand is way out of line," Mr. Vlok said.

Mr. Vlok, speaking mostly in Afrikaans, repeated the official justification of the secret payments to Inkatha. He said they were made in the previous era before Feb. 2, 1990, when President Frederik W. de Klerk unbanned the African National Congress and other opposition groups and called for negotiations on the country's future.

"The president started with a new concept on the second of February," Mr. Vlok said. Neither Mr. Vlok nor any other senior officials have confirmed that covert funding of Inkatha subsequently stopped.

The Sunday Star reported that the payments revealed to Inkatha so far were "just the tip of an iceberg of massive secret funding of the organization."

The disclosure of secret pay-

ments also overshadowed the Inkatha Freedom Party's annual congress, which wound up Sunday in the Natal town of Umhlanga.

Chief Buthelezi, who has tried to distance himself from the scandal, insisted that he knew nothing about covert government funds being deposited in Inkatha's bank account.

IRAQ: Kurds Fleeing

(Continued from page 1)

the border if necessary to protect Kurds, following the pullout of allied forces from northern Iraq.

Miss Saddler said the Red Cross had registered and visited all 1,200 Iraqi soldiers captured by Kurds in As Sulaimaniya.

She said delegates from the all-Swiss humanitarian agency had also seen about 600 casualties in hospitals in As Sulaimaniya and Sayid Sadek, a town 60 kilometers (37 miles) away.

As Sulaimaniya is about 190 kilometers south of the Turkish border and 100 kilometers west of Iran.

United Nations officials in Baghdad said Saturday that Kurdish guerrillas controlled most of the city and were surrounded by government forces.

The officials, reporting by radio from As Sulaimaniya, told UN officials in Baghdad that the guerrillas took control of large areas of the city after scores of casualties.

The clashes occurred after U.S.-led forces early last week completed their withdrawal from an area in northern Iraq, near the Turkish border, where they protected Kurdish refugees from Mr. Saddam's forces.

Nearly a million Kurds fled to Turkey and Iran in March when the Iraqi army crushed an uprising. While it is not known what provoked the violence, a four-month truce in the north seems to be fraying badly. It was put into effect as Kurdish leaders sought to negotiate a new autonomy pact with Baghdad.

Estimates of the casualties in the fighting varied. The chief UN representative in Baghdad, Hiroshi Miura, said he had been told several hundred guerrillas and soldiers had been killed or wounded.

The Red Cross said it had received an estimate of 80 to 200 dead, with 600 wounded and about 20,000 civilians fleeing the city into areas of the countryside controlled by guerrillas.

In Baghdad, the Revolutionary Command Council that rules Iraq issued decrees Sunday offering amnesty to most military deserters and "political fugitives," the official Iraqi press agency reported.

The council, dominated by Mr. Saddam, granted an immediate amnesty to "political fugitives," whether in the country or abroad.

The report did not specify who the "fugitives" were, but it apparently alluded to foes of the Arab Ba'ath Socialist Party. It said all legal steps introduced against them would be ended.

A second decree pardons all deserters, except officers, whether they are in hiding in Iraq or have fled the country. It also covers men who evaded military service.

(AP, Reuters, AFP, NYT)

Istanbul Banks and Store Bombed During Protests

(Continued from page 1)

ISTANBUL — Protesters threw firebombs at two Istanbul banks and a supermarket on Sunday, shortly before the arrival of President George Bush.

The semi-official Anatolian News Agency said no one had claimed responsibility. The attacks were the latest in a series against Mr. Bush's visit, the first by a U.S. president since Dwight D. Eisenhower in 1959.

Two firebombs were thrown in Istanbul on Saturday, but there were no casualties or damage.

On Friday night, eight banks and state offices were bombed. The outlawed leftist group Dey Sol, or Revolutionary Left, which has vowed to strike at Mr. Bush during his visit to Turkey, claimed responsibility for the Friday attacks. It said it had killed two Americans in attacks during the Gulf war.

BAKER: Jordan Supports Talks

(Continued from page 1)

likely to get a straight answer from Mr. Shamir.

"He will not say no, he will try to gain time," said a Western envoy.

Mr. Baker has stalked his objective of coaxing Israel into peace talks with skill and patience. But with Arab acceptance to the terms of the negotiations in his pocket, he is unlikely to allow Mr. Shamir to stall for long.

He is ready to return to Israel within days, either just before or after the U.S.-Soviet summit meeting in Moscow next week.

An Israeli official, asked if Mr. Baker could expect new flexibility from Israel on sticking points such as Palestinian representation and a role for the United Nations in a conference, said:

"Israel has shown a great deal of flexibility from the beginning of the process. We have to hear what is new on the other side first. Then we'll see what can be done."

He said Israel would demand to see details of a Syrian reply to U.S. proposals for a conference. The reply is seen as the breakthrough that led to Mr. Baker's latest mission.

Mr. Shamir is ideologically committed to the settlement drive to ensure permanent Israeli ownership over the Arab lands seized in the 1967 war. He is wary of entering peace talks that are certain to center on an Israeli withdrawal.

As he left Jidda on Sunday, Mr. Baker praised Saudi Arabia's decision Saturday to offer to suspend its economic boycott against Israel in exchange for an Israeli freeze of its settlements. Egypt proposed the boycott compromise Friday.

"I happen to believe there is a genuine desire on the part of all for peace and it is really a question of how best to get there," Mr. Baker said.

The Arab economic boycott of Israel has been in effect since the nation was created in 1948. All 21 members of the Arab League take part in the ban, except Egypt.

Saudi Arabia, as the first Arab nation besides Egypt to endorse a conditional end to the boycott, is clearly taking a certain political risk at home and abroad.

After talks Saturday night between Mr. Baker and King Fahd, the Saudi government issued a formal statement saying:

"The Kingdom of Saudi Arabia has closely followed both the positive position adopted by the Syrian Arab Republic under the leadership of President Hafez al-Assad to promote the peace process by agreeing to participate in the forthcoming peace conference, as well as the statements made by His Excellency, Hosni Mubarak, president of Egypt, indicating that Israel should suspend the building of settlements, and in such a case it would be possible for the Arab countries to take an appropriate step by suspending the Arab boycott of Israel."

President Mubarak, after talks with Mr. Baker on Friday, proposed a trade-off between a suspension of the Arab boycott and a suspension of Israeli settlements in the West Bank, the Gaza Strip and Israeli-annexed East Jerusalem.

The fact that a leading influential Arab nation like Saudi Arabia is now endorsing the proposal should not only give it weight in the Arab world but should also ensure that it will have to be heeded by the Israelis.

But the Israeli defense minister, Moshe Arens, said the Saudis' conditional offer sounded "more like a maneuver and not like a sincere proposal." (AP, Reuters, NYT)

2d Blast Hits School For ANC in White Area

(Continued from page 1)

PRETORIA — A school intended for use by the African National Congress was damaged by a bomb explosion Sunday, the second time in a week, the police said. The government had designated

BUSH: Appeal to Israel

(Continued from page 1)

dent Bush admitted that the hectic pace of his recent travels has had an effect on him, but said he still feels in good health.

"I'm 67 still, and I have to confess that from time to time I get tired," he said at a news conference.

Mr. Bush's trip, starting with the London summit meeting last week, has included early morning meetings and official dinners stretching late into the night.

The health and endurance of the president, who returns home Monday, a week before heading to a summit meeting in Moscow, has been of concern since he was diagnosed in May as having an overactive thyroid gland. He takes daily medication to regulate his heart-beat, help prevent blood clots and to replace the thyroid hormone lost after doctors recommended that the gland be gradually destroyed with radiation treatments.

Bush Backs Turkey

(Continued from page 1)

Maureen Dowd of The New York Times reported from Ankara: Mr. Bush supported the Turkish position of a four-part negotiation on Cyprus that would include the leaders of Greece and Turkey, as well as representatives of the Greek and Turkish Cypriots.

He made the remarks Saturday on the 17th anniversary of the Turkish invasion of Cyprus.

Greece has objected to such an important role in the talks for the Turkish Cypriots. Turkey is the only country that recognizes the Turkish Republic of Northern Cyprus, and it has 16,000 troops on Cyprus, occupying the northern third of the island.

As in Greece, Mr. Bush promised military aid for Turkey's help in the Gulf war. He pledged his support for Turkey's military modernization program, including its 160-plane F-16 development program to modernize its air force.

Mr. Bush said he and President Turgut Ozal "agreed to build a new strategic relationship based on closer political, security and, yes, economic links."

Mr. Ozal, thanking the United States and other nations for the \$3 billion they had given Turkey for its war-related expenses, said that while "it doesn't meet our requirements," the sum was considerable.

ACROSS

- What an aide lends
- Intimidates
- Sound of distress
- On the sheltered side
- Arthur's Willie
- "A rose by any other"
- Omani money
- Love, in Livorno
- Dam!
- Warsaw was raw, e.g.

DOWN

- Bring up or something to bring up
- Played "Taxi" again
- Clairevoyant
- Not-a-one
- W.W.I. battle site
- Raison d'—
- Groucho's silent partner

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WORLD VISION

West o Press ASEAN on Burma Rights

By Michael Richardson

International Herald Tribune

KUALA LUMPUR — Despite strong resistance Western nations will renew attempts to persuade non-Communist countries in Southeast Asia to be more active in opposing human rights violations in Asia, particularly in Burma, Western officials said Sunday.

The official said that the United States, the EC, Australia and Canada would be in talks this week with members of Association of Southeast Asian Nations that the Asians use to pressure the military junta in Burma to end abuses and end power to civilians elected last year.

But ASEAN officials said they would strongly resist any Western attempts to impose human rights standards on the internal affairs of Burma, because this could set a precedent that might be applied to other Asian countries.

Foreign ministers of the six ASEAN members — Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand — will begin annual talks here Monday with their counterparts from the United States, Japan, the European Community, Canada, Australia, New Zealand and South Korea. The talks will end on Wednesday.

At a meeting with EC ministers in Luxembourg in May, ASEAN refused to cooperate in putting pressure on Burma.

Foreign Minister Hans van den Broek of Netherlands, whose country holds the rotating presidency of the EC, said in an interview Sunday that the EC recognized that Burma was a sensitive issue for ASEAN members.

They should be primarily responsible for deciding what methods of persuasion were appropriate, Mr. van den Broek said.

But he added that the EC felt it was "imperative" for all 13 states taking part in the Kuala Lumpur

meeting to discuss Burma to "see how each and every country can try to contribute to positive change there."

Asian officials say there is a fundamental divergence of view between ASEAN and Western countries over the definition of human rights and how standards should be applied in Burma and elsewhere in the developing nations.

The West maintains that all countries have an obligation to observe internationally accepted norms of behavior, and that gross abuses, such as those in Burma, should be countered by international pressure, including an arms embargo.

After shooting thousands of Burmese civilians to put down a nationwide uprising for democracy in 1988, the military allowed national elections to be held in May 1990.

The opposition National League for Democracy won a landslide victory. But the armed forces, ruling as the State Law and Order Resto-

ration Command, refused to hand over power. Since then, the military regime has systematically suppressed the league and other critics.

ASEAN members, which are neighbors of Burma and have extensive trade contacts, insist that outside pressure on the Burmese regime will simply harden its policies, increase xenophobia and close off all chance of gradual change.

In response to repression by the Burmese military, many Western nations have agreed not to supply arms to Burma, to suspend all but humanitarian aid and to reduce trade to a minimum.

In a joint communiqué on Saturday, the ASEAN foreign ministers criticized attempts by some unnamed governments and lobby groups in the West to make observance of human rights standards a condition of aid and trade to developing countries.

Officials said that the ministers were referring particularly to the EC and the United States.

Mr. van den Broek said that although there were pressures from public opinion, the EC had not made its aid, or trade with, developing countries conditional on "a positive outcome" of discussions about human rights violations.

But such a dialogue "certainly could deepen and enhance the quality of our relations," he added.

Prime Minister Mahatir bin Mohamed of Malaysia said at the opening of the ASEAN foreign ministers' meeting on Friday that peace, security, democracy, freedom and stability were "possible and sustainable only when people are free from economic deprivation and have a stake in national life."

ASEAN states, he said, had been right to place "a high premium on political stability by managing a balance between the rights of the individual and the needs of society as a whole."



HOT, DUSTY BARGAINS — At the exchange at Clark Air Base in the Philippines, appliances and electronic items that were damaged by ash from the volcano eruptions at nearby Mount Pinatubo were put out for sale. Some prices were slashed 75 percent.

Tkyyo Seeks Asian Security Talks

International Herald Tribune

KUALA LUMPUR — Japan, seeking to increase its political role in East Asia without alarming neighbors, will propose to 12 Asia-Pacific nations to begin dialogue on regional security and Asian and Western officials said.

In making the proposal at a high-level meeting here Monday, Japan will be responding to suggestions for a exchange of views on security issues. The suggestions have come from other Asian countries, some of which have a possible resurgence of Japanese military power.

The Japanese foreign minister, Taro Nakayama, will make the proposal at a three-day meeting of foreign ministers from the six members of ASEAN, the Association of Southeast Asian Nations, and their counterparts from the United States, Canada, Australia, New Zealand, South Korea and the European Community.

The ASEAN members are Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

The ministers will discuss the regional security outlook, including the U.S. military presence and prospects for peace in Cambodia.

But Japan wants to extend and deepen the discussion by having senior officials from the 12 Asia-Pacific countries meet for more detailed talks before the next ministerial gathering is held in Manila in mid-1992.

A Japanese spokesman declined to comment. But officials from other countries who are familiar with Tokyo's proposal said that the aim was to promote better mutual understanding on political and security problems affecting the region.

As the easing of East-West tensions and budgetary problems prompt the Soviet Union and the United States to reduce their military presence in East Asia, countries in the region have expressed concern that Japan and China may become more assertive.

Analysts have said that this could trigger an arms race in the region as other countries also build up their military forces.

Some U.S. and ASEAN officials said they wanted to find out more about the Japanese proposal before deciding whether to support it.

An Australian official said that the Japanese plan was "modest but entirely welcome."

He added that Japan recognized that, as a major economic power, it needed to involve itself in political and strategic debate about the future of the region.

However, most Southeast Asian countries remain adamant that there should be no Japanese military presence in the region.

Officials said that if all potential participants supported Mr. Nakayama's suggestion and the initial exchange between senior officials on political and security issues proved useful, the discussions could become a regular extension of the ministerial meeting.

—MICHAEL RICHARDSON

Jerusalem — Two Palestinian factory workers stabbed and seriously wounded their Jewish boss on Sunday, hours before the arrival of Secretary of State James A. Baker 3d on a peace mission.

Police said the pair stabbed the 50-year-old factory owner several times before fleeing. They believed the motive was nationalistic. Palestinians in the occupied territories have been in revolt against Israel for 43 months.

A Palestinian man stabbed to death four Jewish women in Jerusalem in March, the day before the first of Mr. Baker's five post-Gulf war shuttles to the Middle East. The attacker said the killings were a message to Mr. Baker.

Palestinians Stab Their Jewish Boss

Reuters

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Bush Acts to Sway Senate on China Trade

By Guy Gugliotta

Washington Post Service

WASHINGTON — In an effort to win support from the Senate for the extension of preferential trade status for China, President George Bush has outlined steps the administration will take to moderate Chinese government policies on human rights, weapons proliferation and trade.

The Senate debate on granting most-favored-nation status to China for an additional year begins Monday.

The Senate will consider a resolution to deny the status outright and a bill sponsored by Senator George J. Mitchell, Democrat of Maine, to extend the status for one year but condition future renewals on progress by the Chinese government in curbing rights abuses, trade restrictions and exports of weapons and missile technology.

Mr. Bush, who opposes both measures, wrote to Senator Max Baucus, Democrat of Montana, describing how he planned to address congressional concerns without attaching conditions.

In a substantial hardening of previous administration positions, the letter promised tough new sanctions, including "self-initiated" re-

tributory action under U.S. trade laws, if China failed to take "substantial measures" to moderate a long list of "unfair" trade practices.

In another departure from earlier policy, the letter said the administration would "work actively" to support Taiwan's application for membership in the General Agreement on Tariffs and Trade, the international treaty governing world commerce.

The administration also pledged to initiate tighter controls on imports of Chinese goods produced by prison laborers, but was much softer on general rights concerns and weapons proliferation.

Mr. Bush said the administration would continue sanctions and international loan restrictions designed to moderate Chinese human rights abuses and would press for China's entry into weapons non-proliferation agreements. These policies, many senators charge, are already in place and do not work.

Mr. Mitchell said the letter "lacks substance" and "is mostly rhetoric," adding that "there is no action on the vital question of human rights. China has an ongoing and aggressive program to sell missiles and nuclear technology to Third World countries."

The Mitchell bill is expected to pass by a comfortable margin, but it is unclear whether it will win the 67 votes necessary to override an expected presidential veto. The House, which two weeks ago overwhelmingly passed a conditions bill, is considered by the administration to be a virtual lost cause.

Major Oil Spill Off Western Australia

The Associated Press

PERTH, Australia — A burning Greek oil tanker broke up early Sunday off Australia's west coast, spilling an estimated 29 million gallons of light crude oil into the Indian Ocean, officials said.

The 37 crew members on the vessel, the Kiki, were airlifted to safety after the ship caught fire, officials said.

The spill — more than 7 miles (11 kilometers) long and almost a mile wide — was about 125 miles north of Perth and 18 miles west of the fishing town of Cervantes, Australia's Oil Pollution Combat Unit said.

man of the West Australian Oil Pollution Combat Committee, called the spill "catastrophic." He said, "It's the worst category you can possibly have — a major, major spill."

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THE ARIANESPACE REPORT

Arianespace Orbits New European Satellite That Monitors Global Environment

Arianespace, the world's first commercial space transportation company, has just launched the European Remote Sensing satellite, ERS 1, developed by the European Space Agency.

ERS 1, for earth observation, provides microwave, infrared monitoring of oceans, ice and land. Also aboard for this launch were four science and communications microsatellites, three from Europe and one from the USA.

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Croats and Serbs

One part of the jigsaw puzzle that is Yugoslavia may be on the way to being solved, but this may make solving the more dangerous second part all the harder.

The part perhaps being solved is Slovenia, which declared its independence on June 25 and defied it briefly but successfully against federal military intervention. Yugoslavia's collective presidency has now agreed to withdraw federal troops in three months. Withdrawal means that the Serbian-dominated government in Belgrade no longer expects to use force to keep Slovenia in the federal fold. It sets the stage for the formal secession talks about to get under way. It means that Europe is soon to see a new nation, Slovenia—a development that the United States supports to the extent that it results from a negotiation.

But what about the other would-be breakaway republic, Croatia? Sitting close by Serbia and containing a frightened and defiant Serbian minority, Croatia lacks Slovenia's physical, demographic and economic separatism, and has much less leeway to make a similar run for independence. Yet a powerful nationalist current is churning in the republic, and the level of continuing bloodshed, with losses being suffered by both Serbs and Croats, raises a specter of early and massive escalation. The same federal presidency that has de-

cided to let Slovenia go has apparently drawn the line at Croatia. The federal army command, dominated by Serbs and no longer stretched thin in Slovenia, has its own evident inclination to crack down.

The European Community asks credit for its mediating role in averting the worst in Slovenia and steering the parties toward negotiations. But the EC hesitates to launch a parallel initiative in Croatia, so far the harder place and one where there is so far no cease-fire and where not just mediation but risky peacekeeping would seem to be required. Moscow, leery of setting a precedent that could be applied to other insurgent republics, has ruled out United Nations intervention. "New world order" notwithstanding, the United States is in a poor position to offer more than advice to cool down.

A great burden rests on Croatia to offer immediately effective protection and guarantees to its Serbian minority, and on Serbia to give the Croats room to feel secure within their own borders. At this moment there is an urgent danger that, provoked or on their own, federal forces or armed right-wing Serbs may try to crush Croatia's bid for independence. This could unleash incalculable violence, and all alarms must be raised against it.

—THE WASHINGTON POST.

Themes for Democrats

In just a year, the Democrats will head home from a hard week spent in Madison Square Garden setting their candidate for president and their priorities and platform. But now, with only a year to go, they have no plausible challenger to President George Bush. They have little in the way of common priorities or program, little even perhaps by way of a party.

That is not a problem merely for the Democrats, intimidated by Mr. Bush's virtuosity in foreign affairs and harsh wedge politics at home. The lack of coherent opposition also constitutes a problem for the public. With congressional Democrats working so often in coalition, not opposition, what is sorely missing is the adversarial debate that a campaign promises, the debate needed to force the right choices for the right problems. With that in mind, we offer ourselves as interim pinch hitters. Not as partisans for the Democrats, nor for the Republicans, but for frustrated Americans eager to tame the future.

America has focused responsibility on momentous developments abroad: the Gulf war, the end of the Cold War. Yet that opens the way for change at home, too—not that you would know it from the Democrats. They deride the president's inability to describe, let alone provide what he calls "the vision thing." But where is the peace dividend? What is their domestic policy?

That is why we set out in this series of editorials to appear occasionally in coming weeks, to identify and then appraise several themes that underlie the next election and the future and yet are obscured or ignored by the political process.

The political process itself: To many Americans, politics has become remote and sterile, posing false choices. For all the angry abortion debate, as an example, most Americans could probably agree in two minutes on a six-word policy: Discourage abortions but don't ban them. Yet in the political arena the extremist fury drags on for still more years, oblivious to urgent concerns like the blazing spread of measles.

In a sobering new report, David Matthews of the Keating Foundation cites reaction "against a political system that is perceived as so autonomous that the public is no longer able to control and direct it. People talk as though our political system had been taken over by alien beings."

Taxing the Good Works

The Internal Revenue Service does taxes, not morality, so the question is not whether charity begins at home—it is whether the charitable deduction should. How, to be precise about it, must U.S. multinational corporations allocate their charitable contributions for tax purposes as between their domestic and foreign operations? You may not care or think it matters much, but an awful lot of charities do. Appropriate members of Congress have been enlisted, and the tax bar is working overtime. A basic rule of public policy has been confirmed. The more obscure the issue, the greater the room for mischief and the more intense the fight.

For years there has been pitched battle over how multinationals in figuring their U.S. taxes should be made to apportion not especially their charitable contributions, a relatively minor item, but all their general expenses. How should a drug company be allowed or required to split its research costs in calculating its foreign and domestic income? Largely because of the way a civilizing device called the foreign tax credit operates, it does not help the companies to assign such expenditures to their foreign operations. To reduce their apparent U.S. income and tax liability, they have traditionally tried to bring as many such costs as possible home. The IRS has argued that only parts could be brought home, but which parts and how arrived at? Many millions of dollars a year danced on the heads of those pins.

For simplicity's sake, the rule on charitable contributions, as for other miscellaneous expenses, has been to divide them the same way income is divided. If only half a company's income is domestic, only half its worldwide charitable contributions can be taken as a U.S. deduction. That is easy on the auditors but hard on the points of light: it cuts the tax incentive to give to charity in half. So domestic charities, among others, supported a different rule: If 100 percent of a charity's work was domestic, 100 percent of the contribution would be deductible, and so the IRS has now proposed. That is good for the United Fund, but it is bad for CARE. As ever in tax law, in solving one problem you create the next. The international charities, their friends in Congress and their lawyers are protesting—and rightly so.

The president of Save the Children says the proposal would "chill the climate of philanthropy at a time when such contributions are desperately needed." The House Select Committee on Hunger calls it a threat to private international relief. Members of the Senate Appropriations subcommittee on the Treasury, the Senate Finance Committee and the House Ways and Means Committee are also urging the Treasury to reconsider, as it should. Does it really want to distinguish between a gift to feed a hungry person at home and a gift to feed one abroad?

—THE WASHINGTON POST.

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International Herald Tribune, 181 Avenue Charles-de-Gaulle, 92521 Neuilly-sur-Seine, France. Tel.: (1) 46 37 93 00. Telex: Advertising, 613595; Circulation, 612832; Editorial, 612718; Production, 630698.

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OPINION

A Saga of Joint Ventures, Starring Bankers and Spies

By Jim Hoagland

LONDON—Modern spying is more cloak and bankbook than cloak and dagger. The big secrets of the CIA, MI-5 and perhaps even the KGB now involve their bankers, not their assassins.

Two banking scandals, one here and one in America, pierce the hidden financial core of the espionage business. Both scandals are centered on the Gulf. Taken together, as they should be, these scandals will cost American taxpayers and British depositors billions of dollars when the final accounting is done.

The close relationship between bankers and spies is a necessary one. Like you or me, spies have a lot of bills to pay. But they must frequently pay them in odd, scary or merely surreptitious ways to odd, scary or merely surreptitious people in faraway places. To buy or rent these people, it takes money, skill and discretion—but mostly money.

It also takes the benign neglect of regulators and other government officials who turn a blind eye to fishy balance sheets and hidden cash flows that would normally trigger audits and fraud investigations. Spies need bankers, and bankers need friends in high places.

William Casey understood that, and he used his time as Securities and Exchange Commission chairman under Richard Nixon as an apprenticeship to become Ronald Reagan's spy master. And Robert Gates, Mr. Casey's would-be successor once removed, has

frequently said that the agency must improve its understanding of finance and economics.

A curiously worded denial by the CIA of accusations that it had close working relations with the Luxembourg-based, Arab-owned Bank of Credit and Commerce International, which helped underwrite arms shipments to Iran, Iraq or both, raises new questions. The agency was not involved in any "unlawful use" of the fraud-infested BCCI, according to the denial published here by the Financial Times.

Well, nothing is illegal until it is so proven in court. The CIA public affairs wordsmiths were predictably silent on the presumably "lawful" use that the CIA made of a bank that was seized by British authorities this month after allegedly defrauding depositors around the world of \$4 billion.

The British press and the Labor Party are having a field day with new disclosures that alarmed BCCI employees wrote privately months ago to government officials to describe the BCCI scam. The bank's auditors, Price Waterhouse, compiled a report in March 1990—that's right, 1990—listing in detail fraudulent loans and other fake transactions with the rich Arab businessmen who set up the bank. Nothing was done about the letters or the

auditors' report. The money kept coming in and then flowing out to a bunch of reverse Robin Hoods, who lined their pockets with money from the poor. Many BCCI depositors are from developing nations. Britain's financially struggling municipal governments put more than \$200 million in BCCI to earn its higher interest rates.

Reading the list of the Gulf Hood Robins that the Price Waterhouse report fingers is a trip down memory lane for me. I came across several of the scandal's key characters when I was living in Beirut in the mid-1970s and working on a series about Arab money men.

The intriguing aspect, then and now, is the close connections the oil-money entrepreneurs had to Western intelligence services and to arms merchants who pocketed billions from government-financed weapons sales. There seemed to be a seamless web of money and influence, and a pervasive odor of corruption, linking them all in a world in which everything was for sale.

BCCI's aggressive pursuit of deposits in Panama from drug traffickers suggests an internationalization of the Middle East pattern in the 1980s. How BCCI flourished under a leader named Mamoun Noriega, whose name just may be familiar to the CIA and to George Bush, is outlined in detail in a book recently published in Panama by Daniel González, the former deputy manager of BCCI there.

The same pattern of official benign neglect toward odd banking practices is plain in the Banco Nazionale del Lavoro scandal in the United States. The Atlanta branch of the Italian bank continued to underwrite Iraqi credit in the United States long as a prudent banker would have stopped would have been stopped by art bank relations. The Bush administration continued pushing doing business with Iraq long after Saddam Hussein's destructive regional aspirations had bankrupted his country. A serious congressional investigation should find why these things happened.

The banking and spy joint ventures have grown into monster corrupting both free enterprise and espionage. The CIA off on the same track again as trying to me up for lost time by hastily recruiting Iraqi agents to help depose Saddam.

At first, the agency put off its payroll of dissidents of uncertain ability and integrity. The agency seemed to be lying up pole simply because they were for sale and the United States had the money.

But the operation is becoming more professional as it expands. Despite its corrupting experience in mutual manipulation with banks, the CIA is learning the espionage among the problems that are not solved throwing money at them.

The Washington Post.

Continentalism: A Silly New Excuse for Splitting Up the World

By Brian Beedham

LONDON—We need a word for it. A new way of splitting up the world has appeared upon the scene, which may soon end the brief glow of post-Cold War unity that the Group of Seven rich countries were implausibly celebrating in London last week.

The new phenomenon is a novel way for men to turn their backs on each other. It cannot be called nationalism. It reaches beyond the old nation-state, and is partly the result of a desire to overcome the 19th century sort of nationalism. Until someone thinks of a punchier word, call it continentalism.

It was nice to believe that the end of the Cold War would produce a unanimous world, capitalists and contrite ex-Communists strolling hand in hand into a sunlit future. It won't.

The new dividing lines are already visible. The victors of the Cold War, the countries that met in London last week and gave the defeated Mikhail Gorbachev a conde-

scending pat on the shoulder, are already in danger of breaking up into three hostile blocs.

On the surface, their hostility is chiefly about trade. As for rational-minded men, who will tell you that arguments about trade can be rationally solved, a deeper instinct to be different almost certainly lurks underneath the squabbling about imports and exports.

The Group of Seven solemnly promised in London to try to complete the long-drawn-out GATT trade talks by the end of this year. In fact, the obstacles to a global trade deal are as tall as ever.

The European Community has still done virtually nothing to dismantle the world's most offensive system of farm protection. Japan still runs a vast export surplus that unjustly (because much of the fault is their own) arouses explosive re-

sentment among Americans and Europeans. The United States, itself innocent in trade matters, is still tempted to say it will walk out of the GATT talks if the other two do not make concessions.

If nobody gives way—and there are precious few signs of it at the moment—the GATT negotiation will fail, and there will be no global set of trade rules that everybody feels obliged, however grudgingly, to respect. The world will divide up into three competing trade groups. There will be a steadily more protectionist Europe, an East Asian group organized around Japan (and me, before very long, including China), and a United States that is already halfway to putting together its own trade club of the Americas.

Here is economic continentalism. That would be the right word for Europe, America and the Confucian

part of Asia all trying to do each other down for export markets, investment opportunities and access to raw materials; behaving, in short, just like those crude old nation-states, but on a far bigger scale.

There are genuine Euro-Asian-American differences of economic interest. But economic interest, it seems, is only one way in which the instinct of people to distance themselves from one another reveals itself. We may now be entering a period in which these great blocs of countries conduct, in Edward Luttwak's phrase, "the pursuit of adversarial goals with commercial means"—what he calls "ego-economics."

The end of the Cold War has made it easier, because it is safer, for the three continents to try to assert their separatism.

There is some excuse for this in the case of Japan. The Europeans have no such excuse, which is why the will to separatism that some

Europeans are now showing is a miserable business.

The history of the Japanese, after all, barely touched its history of the West until a century ago. The Japanese live in a very special cultural section of the world with its kind of music and poetry and later. A Japanese can play Schubert and Shakespeare without saying himself, as an American does, "they are 'ours'"; or Heine and Tennessee Williams without thinking, as a European does, "Yes, part of our tradition." These are objective differences.

There is no such dividing line between Europe and America. These two places have shared the same history, both empires and possessions, for as long as the map of America has existed. The cultural links run crisscross over the Atlantic, from Madrid to Mexico City as well as from more northerly parts of Europe to New York and New Orleans and the various New Brunswicks.

Europeans and Americans are the same people. They have the differences, to be sure, but these are hardly bigger than those which exist within Europe and within America.

So why do some Europeans want to distance themselves from America, to organize Europe as a separate unit in the world? Resentment, runs one explanation: because, for most of the 20th century, America has been more powerful than Europe.

But this isn't a wash. The 20th century imbalance of power is being corrected as Europe pulls its GNP per head up toward America's, and constructs a loose confederation of European nations that can talk on equal terms to the cousin-son-in-law over the water. The calculations of self-respect do not require Europe cut off from America.

The suspicion grows that those Europeans who believe in a politically and militarily cut-off Europe believe in it for no better reason than that Europe and America occupy different parts of the map. We are physically separate, runs this curious deduction. Ah! We must be separate in other ways, too.

Only this seems to explain, for instance, the recent different over aid for the Soviet economy. Germany and France have been keen on aid to the Soviet Union and Britain, they have no private evidence that Mr. Gorbachev is at last ready to take his breakthrough to capitalism, the necessary condition for aid. They just feel that Russia deserves special consideration because it is on the bit of the map marked "Europe."

The same applies to the defense debate. On any serious analysis, Europe will be more safely defended if it holds on to its military alliance with America. Yet France and some other European, are attracted by the idea of a European defense "identity," which will in the end mean a Europe king to defend itself without American help. If this is why these things are happening, continentalism is merely a fancy name for the old European fallacy. Where you sit on the map holds this fallacy, is more important than what sort of people you are, and what shaped you, anyway, body of beliefs you wish to be by. Proximity matters more than that.

How sad if Europe and America came apart because of such nonsense.

International Herald Tribune.

'Star Wars' to the Rescue of Desperate Democrats

By Leslie H. Gelb

NEW YORK—Nearly unnoticed and after a ramorous debate behind closed doors, the Senate Armed Services Committee has approved deployment of a system to defend the United States against missile attack.

This issue is the inner sanctum of Nuclear War, the priesthood of strategic Mad Hatters. Like no other nuclear question, it fuses esoteric theology and street politics, sending liberals and conservatives to their torments and thumb screws.

How the matter is decided will set the direction of America's nuclear posture in the post-Cold War era. For starters, a decision to deploy an anti-ballistic missile system (ABMS) probably would incite Moscow to cancel the strategic arms treaty just concluded with Washington. If deployed, the system would rob tens of billions from other military programs and domestic priorities.

Congress has rejected plans to deploy an ABMS ever since the ABM treaty of 1972, but the Gulf war has changed the political calculus. Once Patriot missiles started raining down on Iraqi Scuds, everyone agreed that America needed more and better anti-missile missiles to protect its endangered troops and allies. And if it would shield others, how could it do less for itself? By this thread of logic many Democrats who had always been wary of an ABMS found themselves being trapped.

Senator Sam Nunn, the Georgia Democrat who chairs the Senate Armed Services Committee, snapped the trap last week. He crafted a bill that captured both Democrats desperate to over-

turn their anti-Gulf war votes and Republicans long devoted to space-based or "star wars" defenses.

Committee members approved Mr. Nunn's proposal for a crash program to build new tactical ABMs like the Patriot. Then he drew them into the broader commitment to "deploy an anti-ballistic missile system, including one or an adequate additional number of land-based ABM sites and space-based sensors, capable of providing a highly effective defense of the United States against limited attacks of ballistic missiles."

The wily chairman kept most Democrats quiet by stressing that they had signed on simply to deploy one land-based site, allowed by the ABM treaty. He made them smile with language about negotiating with Moscow. But he made Republicans happy with commitments to space-based sensors and accelerated funding for Brilliant Pebbles, which are both key star wars ingredients.

Sensors Al Gore of Tennessee and Carl Levin of Michigan warned their Democratic colleagues that while they had approved only one ABM site now, political and strategic logic would carry them much further. The one agreed site in North Dakota would defend only a third of the United States. Other parts of the country would demand equal protection. And why stop at a simple system to defend against future Saddam Hussein with long-range missiles? What about protection against a breakthrough Soviet repub-

lic with nuclear arms? That would require a more sophisticated, space-based system.

These arguments were not the usual liberal hysteria. The very language of the committee bill clearly leads toward an ABMS of large proportions.

If Senator Nunn has his way, however, the conservatives will find themselves disappointed down the road as well. His strategy is to set the stage for what he calls a Grand Compromise with the Soviet Union. The idea is to trade away the full star wars system with thousands of space-based weapons and sensors, so feared by the technology inferior Soviets. In return he wants Moscow's assent to a more limited system of six or eight land-based ABM sites hooked into space-based sensors.

But to travel this tortured path with the astute Mr. Nunn would be to repeat a long history of allowing the remotest of possibilities to invent reality and drive policy. Even his "limited" ABM system inevitably would undermine mutual deterrence between Moscow and Washington. For 40 years, neither side has dared launch a nuclear attack because neither could blunt a devastating retaliatory blow.

It would be foolhardy to throw away this central pillar of nuclear peace. And for what? To provide political cover for Democrats shell-shocked by the Gulf war? To guard against the remote possibility of intercontinental attack by future Saddams? The cheapest and best way, politically and practically, to check the next nuclear Saddam is the way the allies dealt with this Saddam—by preventive attack.

The New York Times.

Syrian Assent Should Probably Be Taken Seriously

By Richard W. Murphy

WASHINGTON—President Hafez Assad has reportedly sent Washington a surprisingly forthcoming answer to President George Bush's proposal for a regional peace conference—the same proposal that Prime Minister Yitzhak Shamir quickly rejected in early June. We will have to wait until the text is leaked to the press, as is the prevailing American practice, to know what conditions or interpretations the Syrian president placed on his acceptance.

Syria's critics in America and Israel will play down the significance of the Syrian message and argue that Mr. Assad's motivation in sending it was primarily to embarrass Israel. This was possibly one motivating factor, but it does not sufficiently explain why it took Mr. Assad six weeks of deliberation before responding.

Damascus listened carefully to Arab counsels but then reached its own decision to risk a deeper engagement in the peace process, for at least two basic reasons. First, the weakening of Syria's client relationship with the Soviet Union has made Damas-

cus increasingly open to other influences. Second, and no less important, Syria reportedly views this American administration as ready to invest greater energy in the peace process than its predecessor.

Regional developments have also led him to this decision. Damascus has reason to feel more confident about its regional position than it has for several years. It is consolidating its role in Beirut and is supporting the effort by the Lebanese army to disarm the militias. With a renewed peace process, Lebanon will no longer be Syria's overwhelming preoccupation.

The downturn in the PLO's fortunes, including a cutoff of Arab aid in reaction to Yasser Arafat's support for Saddam Hussein, may also work to Syria's benefit, giving it greater influence over some PLO elements.

Whatever the precise mix of his reasons, Mr. Assad must have decided that chances have improved for his secure return of the Golan Heights and recognition of Syria's role as an

essential player in the peace process.

He will, at least temporarily, seem more forthcoming than Mr. Shamir. Some have said that the latter's reply to Mr. Bush, leaked to the Israeli press in early June, was not a complete rejection. But it strains credulity to view the Israeli answer as anything but a firm rejection of all the president's proposals for moving ahead.

Mr. Shamir may have rejected the proposals on the assumption that Mr. Assad would follow suit. If so, his quick rebuttal of the president was premature and a political misstep.

Israel has been searching for Arabs with whom to initiate direct negotiations for 40 years. Jerusalem must recognize and act on Defense Minister Moshe Arens' acknowledgment that President Bush and Secretary of State James Baker may have succeeded in galvanizing such direct talks.

There will be a flood of speculation about next steps. Attention has already focused on the presumed leverage over Israel given by the upcoming Israeli request for American loan guarantees of \$10 billion for job training, education, housing and other projects related to the absorption of Soviet Jews. Providing for the massive influx of new immigrants is a preoccupation that the prime minister, and some in the American Jewish community, have publicly described as more pressing than the peace process.

Some observers are asking if there should not be a price for Israel's rejection of a promising American peace initiative, perhaps withholding these additional loan guarantees.

The European Community, Israel's major trading partner, has staked out the position that it will want to see progress toward an Arab-Israeli peace agreement before it grants Israel a status similar to that of European Free Trade Association countries. But this is not the American way. Neither the executive nor Congress will want to see an acrimonious debate on this issue. There is too much respect for the Israeli mission of offering safe haven to persecuted Jews.

—Ha'aretz (Tel Aviv).

—The Egyptian Gazette (Cairo).

IN OUR PAGES: 100, 75 AND 50 YEARS AGO

1891: Patriotic Vagrants

PARIS—A brace of police officers parked up, during their wandering along the quai d'Orsay, two children, who were in a profound sleep and half dead with hunger. They attempted to question them, but they did not understand a word of French. A policeman from Alsace began to question them in German, in which language they responded readily. They had come from Metz to Paris on foot to see the National Fête. The journey had taken six days and they had slept in barns, depending on charity for their food. There may have been more noisy manifestants on July 14, but there was no more sincere enthusiasm than that displayed by the two little vagrants who found a congenial bed on the quai d'Orsay.

1916: Forbidden Fête

LONDON—The new Governor-General of Brussels took severe measures to prevent the celebration of the

anniversary of Belgian Independence. The inhabitants of Brussels, however, found a means of observing their National Fête. They simply decided to stop work in a body, and were seen in the streets in a pajama and dignified attitude, the women wearing their finest clothes and men wearing the ceremonial silk tie. Deeds were celebrated by Belg communities in Paris and Rome.

1941: Nazis Blitz Soviet

BERLIN—[From our New York edition:] Swarms of Nazi dive-bombers have begun "annihilation" attacks on "a large number" of trapped Soviet divisions which had been massed west of Moscow for a defense of the Russian capital. Encircled by panzer columns driving toward Moscow, the trapped Russian units were fighting desperately to escape and were suffering enormous losses. Six Soviet divisions, totaling possibly 90,000 men, were said to have been "annihilated" by these tactics.

July 22, 1991

New International Bond Issues

Compiled by Laurence Desvillies

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end week	Terms
Floating Rate Notes						
St George Building Society	\$100	1998	0.45	100	—	Over 3-month LIBOR, floored at 99.85, redeemable at par in 1994 and 1996, Fees 0.75%, Denominations \$10,000. (Reuters True Int'l)
Fixed-Coupons						
Banobras	\$100	1994	10%	101.425	100.85	Redeemed at 100.55, Noncallable, Fees 1.16%, Denominations \$10,000, (Credit Suisse First Boston.)
Crédit Local de France	\$200	1995	8%	101.325	99.95	Redeemed at 99.95, Noncallable, Fees 1.16%, (Deutsche Bank)
Export Development Corp.	\$200	1994	7%	101.213	100.10	Redeemed at 100.025, Noncallable, Fees 1.16%, Also 200,000 warrants exercisable at par into 80% notes due 2003, (Credit Suisse First Boston.)
Toyota Motor Credit Corp.	\$200	1995	8%	101.43	100.10	Redeemed at 100.03, Noncallable, Fees 1.16%, (Credit Suisse First Boston.)
Hoogovens	DM 150	1996	9	101%	—	Noncallable, Fees 2%, (Deutsche Bank Capital Markets.)
Rolls-Royce	£ 150	1998	11%	101.465	99.85	Redeemed at 99.99, Noncallable, Fees 1.16%, (S.G. Warburg Securities.)
Crédit Lyonnais	FF 3,000	1992	9%	99.96	—	Noncallable, Fees 0.0625%, (Crédit Lyonnais.)
Société Générale	FF 6,000	1992	9%	99.96	99.93	Noncallable, Fees 0.0625%, (Société Générale.)
Crédit Local	fr. 150,000	1996	12.20	101.775	99.90	Noncallable, Fungible with outstanding issue, raising total to 300 billion frs. Fees 1.16%, (Banque Paribas San Paolo di Torino.)
World Bank	fr. 500,000	2001	10%	101%	100.30	Noncallable, Fees 1.16%, (Banque Paribas San Paolo di Torino.)
Council of Europe	SP 10,000	1996	11.70	101.80	100.30	Noncallable, Fees 1.16%, (Banque Paribas San Paolo di Torino.)
LKB Baden-Wuerttemberg	ECU 150	1996	9%	101.425	99.90	Redeemed at 99.90, Noncallable, Fees 1.16%, (Banque Paribas San Paolo di Torino.)
BP America	CS 200	2001	10%	101	99.70	Redeemed at 99.40, Noncallable, Fees 2%, (J.P. Morgan Securities.)
British Gas Int'l Finance	CS 200	1994	10	101.165	100.05	Redeemed at 99.99, Noncallable, Fees 1.16%, (Goldman Sachs Int'l.)
Procter & Gamble	CS 200	2001	10%	101.30	100.50	Redeemed at 99.70, Noncallable, Fees 2%, (Goldman Sachs Int'l.)
State Bank of New South Wales	Aus\$ 100	2001	11%	100	98.75	Noncallable, Fees 2.5%, (Deutsche Bank Capital Markets.)
Equity-Linked						
Central Int'l	\$ 60	1996	open	100	—	Semiannual coupon indicated at 9% to 10%, Noncallable, Convertible into shares of Banco Central on an expected 5% premium, Fees 2.5%, Terms to be set July 22, (Merrill Lynch Int'l.)
HIH Capital	\$ 60	2006	open	100	—	Semiannual coupon indicated at 7% to 7.5%, Callable at par from 1999, Convertible at an expected 16 to 20% premium, Fees 2.5%, Terms to be set July 22, (J. Henry Schroder Wagg & Co.)
JGC Corp.	\$100	1995	4%	100	100.00	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Int'l Europe.)
Komatsu Seiren	\$100	1995	4%	100	100.50	Noncallable, Each \$10,000 note with two warrants exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 22, (Yamichi Int'l Europe.)
Mitsubishi Cable Industries	\$130	1995	4%	100	99.88	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Osaka Cement	\$100	1995	4%	100	99.88	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Senshukai	\$100	1995	4%	100	—	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Shiroki	\$ 90	1995	4%	100	100.50	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Showa Electric Wire & Cable	\$120	1995	4%	100	—	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
SWC	\$100	1995	4%	100	100.25	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Tos	\$100	1995	4%	100	101.00	Noncallable, Each \$10,000 note with two warrants exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 22, (Mitsubishi Securities Europe.)
Tobu Railway	\$300	1995	4%	100	—	Noncallable, Each \$10,000 note with two warrants exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Tokyo Hotel Chain	\$120	1995	4%	100	—	Noncallable, Each \$10,000 note with two warrants exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Tsutsunaka Plastic Industry	\$100	1995	4%	100	—	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Chubu Steel Plate	DM 100	1995	5	100	—	Noncallable, Each \$5,000 note with five warrants exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Mr. Max	DM 100	1995	5	100	—	Noncallable, Each \$5,000 note with five warrants exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Teraoka	DM 40	1995	5	100	—	Noncallable, Each \$5,000 note with five warrants exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
JGC Corp.	ECU 70	1995	5%	100	98.63	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)
Mizuno	ECU 70	1995	5%	100	98.00	Noncallable, Each \$5,000 note with one warrant exercisable into company's shares at an expected 25% premium, Fees 2.5%, Terms to be set July 26, (Mitsubishi Securities Europe.)

Bonds Seen Strong Despite Supply

Good Demand Is Expected for Treasury's Note Auctions

Compiled by Our Staff From Dispatches
NEW YORK — The resilience of U.S. bond prices in the face of some recent strong reports on the economy has encouraged many analysts to predict solid demand for the Treasury's heavy slate of offerings this week.

"It's not clear to me that the market has to back up," said Scott Wittingham of Stone McCarthy Research Associates Inc. "Since the key low made June 13, we've made a choppy move higher. If nothing else, that kind of action has to be on the positive side."

Prices of Treasury securities were mixed last Friday, as signs of a slowing in the growth of the nation's money supply offset concerns about the heavy volume of note and bond offerings due in coming weeks and months.

The Federal Reserve reported Thursday that the M2 money supply fell \$6.9 billion to a seasonally adjusted \$3,389.5 trillion in the week ended July 13. That decline and the ample supply of funds that banks have available to lend to each other indicate weak credit demand by industry and consumers, which should tend to reduce inflationary pressures and interest rates.

But the positive news was offset by the prospect of a huge supply of Treasury debt.

The Treasury's benchmark long bonds, the 8 1/4 percent issue maturing in May 2021, was offered at 96 3/32 last Friday, up 1/32 on the day. The yield was unchanged on the day at 8.47 percent, but up from 8.43 percent a week ago.

"Despite the supply of new Treasury paper on the auction calendar, the market preferred to focus on the slowing in the growth of the money supply and easy funds rate," said William V. Sullivan Jr., senior vice president at Dean Witter Reynolds.

The market will be hit with offerings of \$20.8 billion of three- and six-month bills on Monday, \$12.5 billion of two-year notes on Tuesday, \$9.25 billion of five-year notes on Wednesday and \$12.5 billion of one-year bills on Thursday.

Economists said the two-year notes should be bought handily, but there could be some difficulty at the five-year note sale.

Mr. Sullivan said there seemed to be much less concern that a few large financial houses would snap up most of the two- and five-year notes and squeeze professional short-sellers, as has happened at recent note auctions.

One strong sign that fears of a squeeze have abated is the smaller spreads between the notes to be sold and the outstanding issues.

Mr. Sullivan said, "The spread today is six basis points, or half that of a few days ago," he added.

Late Friday, the two-year notes traded on a when-issued basis to yield 6.89 percent, down from 6.95 percent the day before. The yield on the five-year notes fell to 7.89 percent from 7.92 percent.

On July 31, the Treasury will announce its quarterly refunding, expected to be at least \$37 billion.

"As we get closer to the refunding, there will be a bias toward higher yields," said Michael Rosen, vice president at First Interstate Bank. But he added, "Fundamentally the market is in great shape. The key to bond prices is inflation, and inflation is super."

(Reuters, NYT, AP)

Malaysia Weighs Soviet Credit Request

AGENCY FRANCE-PRESSE
KUALA LUMPUR — Malaysia is considering a Soviet request for a \$200 million credit to buy palm oil and other commodities, Deputy Prime Minister Yusi Maslyukov of the Soviet Union said Sunday.

"We have been buying natural rubber, palm oil, tin and some other commodities from Malaysia year after year," Mr. Maslyukov said before leaving for an official visit to Indonesia.

"This year, we are temporarily experiencing difficulties and... we have indeed requested credit for such purchases," he said.

Malaysia is considering the request and has not made a final decision, he added.

Mr. Maslyukov said he viewed the inclusion of security issues in the talks as positive. But he added "it is premature for me to express a position while we are not yet a full-fledged dialogue partner" with ASEAN.

Guests of the Malaysian government, which is hosting annual talks among foreign ministers of the Association of Southeast Asian Nations.

The Soviet participation represented Moscow's first official contact with the noncommunist regional grouping.

Diplomats said security issues would feature for the first time at a post-ministerial conference from Monday through the ASEAN foreign ministers and their major trading partners.

Taiwan Export Orders Up 14.5%

TAIPEI — Export orders for goods made in Taiwan surged 14.5 percent from a year earlier to \$6.36 billion in June, accelerating a boom in the island's foreign trade, the Economics Ministry said Sunday.

Orders from Hong Kong, the main conduit for rising indirect trade between Taiwan and China, soared 85.7 percent from a year earlier to \$1.03 billion, causing the colony to replace Europe as the second biggest destination for Taiwanese goods.

Orders from the United States, Taiwan's largest market, rose 10.54 percent to \$2.29 billion. European orders gained 9.57 percent to \$950 million, and Japanese 1.79 percent to \$800 million.

Economists said Taiwan's exports were likely to continue growing strongly for the rest of the year, boosting economic growth and pushing up the value of the Taiwan dollar.

"Overall, exports are very healthy and this will add a lot of strength to the economy in coming months," said Chris Ruffe, analyst at S.G. Warburg Securities in Taipei.

The annual growth rate for export orders in June was the highest since January. Orders dropped 2.69 percent from a month earlier, but the ministry said this was due to a series of unusually large orders for machinery in May.

For the first half of this year, export orders gained 8.36 percent from the year-earlier period, to \$36.1 billion.

Economists said the rapid rise in exports would ensure that the growth in Taiwan's gross national product, which fell to an eight-year low of 5.29 percent in 1990, would rebound to well above 6 percent this year.

Taipei May Increase Economic Aid

Taiwan may increase its economic aid to other countries in an effort to boost the island's international image, Deputy Economic Minister Chiang Ping-kun said Saturday, Agency France-Presse reported from Taipei.

Debt Defaults, Floods Spur China Inflation

AGENCY FRANCE-PRESSE

BEIJING — Mounting debt defaults and strong demand for loans following severe flooding will increase inflationary pressure in China in the second half of the year, a central bank official was quoted Saturday as saying.

"The financial situation in the second half of this year will allow no room for optimism," a People's Bank of China vice governor, Guo Zhengqian, said at a conference Friday.

"Keeping a tight control over the general provision of loans should continue to remain one of the current important tasks for the banks," the official China Daily quoted Mr. Guo as saying.

The bank official said flooding in the past had forced banks to print money for relief work and the risk of higher prices. The Agriculture Bank of China said last week it was ready to issue credits of \$943 million to help flood victims.

India Cites a Need For Broad Change

REUTERS

NEW DELHI — The Indian government said structural economic changes were an "inescapable necessity" if the country is to avoid stagnation as it cuts its budget deficit.

In an economic survey presented to parliament on Saturday, four days before the 1991-92 budget is to be unveiled, the government said the economy had been battered by a balance of payments crisis, big budget deficits and double-digit inflation.

"Credible structural reforms designed to improve the efficiency and productivity of resource use is an inescapable necessity, if the unavoidable fiscal adjustment is not to lead to stagnation," the report said.

The Congress government of Prime Minister P.V. Narasimha Rao, which came to power after a general election in May and June, has moved quickly to try to revive an economy burdened with a \$71 billion foreign debt.

It devalued the rupee by 19 percent against the dollar, enacted

sweeping changes to a restrictive trade regime, pledged substantial amounts of its gold reserves to raise overseas loans and promised to overhaul the state-dominated industrial sector.

India's gross national product rose about 5 percent in the financial year that ended in March 1991, compared with 5.2 percent the year before, the survey said.

Inflation measured by the consumer price index was 13.6 percent against 6.6 percent in the previous year.

"This higher rate of inflation is also a cause for concern because the price increase has been large in the case of several essential commodities," it said.

The budget deficit in 1990-91 rose to 107.72 billion rupees from 105.92 billion the previous year. The deficit would have to be brought down to 6.5 percent of GNP in the new budget from its current 8.3 percent, the survey said.

Diplomats said the deficit reduction was a key condition laid down by the International Monetary Fund before it will give India a \$2 billion loan, expected by October.

Britain Seeks EC Ban on Cyclamates

REUTERS

BRUSSELS — Britain will demand on Monday that the European Community ban an artificial sweetener widely used in soft drinks, EC diplomats and industry sources said.

Britain claims cyclamate sweeteners are unsafe for humans. It is threatening to veto a food-safety law that EC trade ministers are due to discuss Monday unless the product is banned, the sources added.

Cyclamate sweeteners were banned in the United States in 1970 after tests showed they produced cancer in rats, but the U.S. Food and Drug Administration has considered reversing the ban in light of more recent studies discounting any cancer risk.

Britain's cyclamate ban is based on the grounds that they have led to the degeneration of testicles in animals.

But the EC committee on food safety, comprised of scientific experts from all 12 Community countries, approved cyclamates after analysis of average intake by humans over their lifespan.

The soft-drink giant Coca-Cola Co. is lobbying with other users and manufacturers of sugar substitutes for approval of the EC measure, which sets moderate dose limits for its use in food and beverages.

"You would have to drink more than five cans of Coke a day for the rest of your life to go over the EC limit," said Roland Jan-Meijer, Coca-Cola's external relations director for Europe.

"And that limit takes in a safety margin which would mean higher consumption was still perfectly safe."

Mr. Jan-Meijer said sweetener companies were appealing against the ban in the United States, saying the results from animal tests could not be extrapolated to judge effects on humans.

Britain is the only EC country where restrictions stop the use of cyclamates in drinks, he said.

The diplomats say they expect a big row on Monday because Germany is also fighting to stop the new rules from allowing its brewers to use sweeteners in beer.

Germany wants exemptions so it can force brewers on its territory to

respect national rules dating back more than 300 years which only allow beer to be made from water, malt, hops and yeast.

Also Monday, EC ministers will try to agree on measures to regulate labelling, advertising and distribution of pharmaceutical products in the post-1992 single market.

Meeting as the Internal Market Council, they also will consider what criteria EC countries should follow in deciding when to require prescriptions for drugs.

The package of measures is designed to pave the way for the transport and selling of medicines across borders without conflicting national regulations.

The labelling proposal would require makers to list ingredients, expiration date and instructions on use and storage on the container.

It also would provide more detailed information on precautions and side effects on the package or in a leaflet.

Another proposal would ban advertising of prescription drugs and set strict rules for advertisements of over-the-counter drugs.

MCA Reportedly in Talks To Buy Hanna-Barbera

NEW YORK TIMES SERVICE

LOS ANGELES — Hanna-Barbera Productions and MCA Inc. are said to be in the early stages of negotiations for MCA to buy the maker of television cartoons.

Hanna-Barbera, which created the Jetsons and Flintstones among other characters, is owned by Great American Communications Co. of Cincinnati, a troubled radio and television organization controlled by the financier Carl H. Lindner.

Executives close to the deal said that at least one meeting had been held between Great American and MCA, the Hollywood film-studio company owned by Matsushita Electric Industrial Co. of Japan. They said that although MCA was studying the cartoon company, no announcement of a sale was imminent.

Sources said Michael Ovitz, the Hollywood agent who helped negotiate MCA's sale to Matsushita last year, was working with Hanna-Barbera. Mr. Ovitz, however, declined to comment.

Representatives of MCA and Great American also declined to comment on the reports, which appeared Thursday in the Los Angeles Times and two trade publications. The reports said that the asking price for Hanna-Barbera was \$350 million to \$400 million but that MCA's offer was substantially less.

COMPANY RESULTS

Revenue and profits or losses, in millions, are in local currencies unless otherwise indicated.	CSX				1st Half		1991
	2nd Quarter	1991	1990	1991	2nd Quarter	1991	1990
Revenue	2,135	2,135	2,050	2,050	Revenue	4,270	(4)30,800
Net Income	1,115	1,115	1,080	1,080	Net Income	2,230	2,230
Per Share	1.15	1.15	1.10	1.10	Per Share	2.23	2.23
	1st Half				1st Half		1991
Revenue	4,270	4,270	4,100	4,100	Revenue	4,270	4,270
Net Income	2,230	2,230	2,160	2,160	Net Income	2,230	2,230
Per Share	2.23	2.23	2.16	2.16	Per Share	2.23	2.23
1990 per share results include gain of 21 cents.							
Canada							
Abn-Amco Price							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	7,700	7,200	7,200	7,200	Revenue	7,700	7,200
Net Income	1,100	1,100	1,100	1,100	Net Income	1,100	1,100
Per Share	1.10	1.10	1.10	1.10	Per Share	1.10	1.10
1st Half							
Revenue	1,440	1,390	1,390	1,390	Revenue	1,440	1,390
Net Income	1,200	1,150	1,150	1,150	Net Income	1,200	1,150
Per Share	1.20	1.15	1.15	1.15	Per Share	1.20	1.15
1990 per share results include gain of 21 cents.							
USA							
IBM							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	14,200	14,200	14,200	14,200	Revenue	14,200	14,200
Net Income	1,700	1,700	1,700	1,700	Net Income	1,700	1,700
Per Share	1.70	1.70	1.70	1.70	Per Share	1.70	1.70
1st Half							
Revenue	28,400	28,400	28,400	28,400	Revenue	28,400	28,400
Net Income	3,400	3,400	3,400	3,400	Net Income	3,400	3,400
Per Share	3.40	3.40	3.40	3.40	Per Share	3.40	3.40
1990 per share results include gain of 21 cents.							
USA							
Sho-Western Bell							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	17,200	17,200	17,200	17,200	Revenue	17,200	17,200
Net Income	1,720	1,720	1,720	1,720	Net Income	1,720	1,720
Per Share	1.72	1.72	1.72	1.72	Per Share	1.72	1.72
1st Half							
Revenue	34,400	34,400	34,400	34,400	Revenue	34,400	34,400
Net Income	3,440	3,440	3,440	3,440	Net Income	3,440	3,440
Per Share	3.44	3.44	3.44	3.44	Per Share	3.44	3.44
1990 per share results include gain of 21 cents.							
USA							
Kelllogg							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	1,000	1,000	1,000	1,000	Revenue	1,000	1,000
Net Income	1,000	1,000	1,000	1,000	Net Income	1,000	1,000
Per Share	1.00	1.00	1.00	1.00	Per Share	1.00	1.00
1st Half							
Revenue	2,000	2,000	2,000	2,000	Revenue	2,000	2,000
Net Income	2,000	2,000	2,000	2,000	Net Income	2,000	2,000
Per Share	2.00	2.00	2.00	2.00	Per Share	2.00	2.00
1990 per share results include gain of 21 cents.							
USA							
US West							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	1,200	1,200	1,200	1,200	Revenue	1,200	1,200
Net Income	1,200	1,200	1,200	1,200	Net Income	1,200	1,200
Per Share	1.20	1.20	1.20	1.20	Per Share	1.20	1.20
1st Half							
Revenue	2,400	2,400	2,400	2,400	Revenue	2,400	2,400
Net Income	2,400	2,400	2,400	2,400	Net Income	2,400	2,400
Per Share	2.40	2.40	2.40	2.40	Per Share	2.40	2.40
1990 per share results include gain of 21 cents.							
USA							
MNC Financial							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	8,500	8,500	8,500	8,500	Revenue	8,500	8,500
Net Income	8,500	8,500	8,500	8,500	Net Income	8,500	8,500
Per Share	8.50	8.50	8.50	8.50	Per Share	8.50	8.50
1st Half							
Revenue	17,000	17,000	17,000	17,000	Revenue	17,000	17,000
Net Income	17,000	17,000	17,000	17,000	Net Income	17,000	17,000
Per Share	17.00	17.00	17.00	17.00	Per Share	17.00	17.00
1990 per share results include gain of 21 cents.							
USA							
Zenith Electronic							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	5,000	5,000	5,000	5,000	Revenue	5,000	5,000
Net Income	5,000	5,000	5,000	5,000	Net Income	5,000	5,000
Per Share	5.00	5.00	5.00	5.00	Per Share	5.00	5.00
1st Half							
Revenue	10,000	10,000	10,000	10,000	Revenue	10,000	10,000
Net Income	10,000	10,000	10,000	10,000	Net Income	10,000	10,000
Per Share	10.00	10.00	10.00	10.00	Per Share	10.00	10.00
1990 per share results include gain of 21 cents.							
USA							
Olin							
2nd Quarter	1991	1990	1991	1990	2nd Quarter	1991	1990
Revenue	4,000	4,000	4,000	4,000	Revenue	4,000	4,000
Net Income	2,100	2,100	2,100	2,100	Net Income	2,100	2,100
Per Share	2.10	2.10	2.10	2.10	Per Share	2.10	2.10
1st Half							
Revenue	8,000	8,000	8,000	8,000	Revenue	8,000	8,000
Net Income	4,200	4,200	4,200	4,200	Net Income	4,200	4,200
Per Share	4.20	4.20	4.20	4.20	Per Share	4.20	4.20
1990 per share results include gain of 21 cents.							
USA							

OTC Consolidated trading for week ended Friday, July 19.

Net Change		figures as of close of trading Friday, July 19.		Cuts		Puts	
Market & price		Cuts		Puts		Cuts	
American Airlines		1.00		1.00		1.00	
American Express		1.00		1.00		1.00	
American International		1.00		1.00		1.00	
American Overseas		1.00		1.00		1.00	
American Republics		1.00		1.00		1.00	
American Samoa		1.00		1.00		1.00	
American Sugar		1.00		1.00		1.00	
American Tobacco		1.00		1.00		1.00	
American Trust		1.00		1.00		1.00	
American United		1.00		1.00		1.00	
American Water		1.00		1.00		1.00	
American Wire		1.00		1.00		1.00	
American Yacht		1.00		1.00		1.00	
American Zephyr		1.00		1.00		1.00	
American Zephyr		1.00		1.00		1.00	
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American Zephyr		1.00		1.00		1.00	
American Zephyr		1.00		1.00		1.00	
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American Zephyr		1.00		1.00		1.00	
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American Zephyr		1.00		1.00			

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